

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF CORIX UTILITIES)
(ILLINOIS) LLC; HYDRO STAR, LLC; UTILITIES,)
INC.; AND WATER SERVICE CORPORATION OF) CASE NO. 2012-00133
KENTUCKY FOR THE TRANSFER AND)
ACQUISITION OF CONTROL PURSUANT TO)
KRS 278.020)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
CORIX UTILITIES (ILLINOIS) LLC; HYDRO STAR, LLC; UTILITIES, INC.;
AND WATER SERVICE CORPORATION

Pursuant to 807 KAR 5:001, Commission Staff requests that Corix Utilities (Illinois), LLC ("Corix"); Hydro Star, LLC ("Hydro Star"); Utilities, Inc. ("Utilities"); and Water Service Corporation of Kentucky ("Water Service") (collectively "Joint Applicants") shall file with the Commission no later than June 25, 2012 the original, one paper copy and one electronic copy of the following information. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Joint Applicants shall make timely amendment to any prior response if they obtain information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Joint Applicants fail or refuse to furnish all or part of the requested information, Joint Applicants shall provide a written explanation of the specific grounds for their failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Case No. 2002-00018, *Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH* (Ky. PSC May 30, 2002) at 11-12. Explain why the following entities did not join with the Joint Applicants in their application for Commission approval of the proposed transfer of control:

- a. Corix Infrastructure Inc. ("Corix Infrastructure");
- b. Corix Infrastructure (US) Inc.;
- c. Inland Pacific Resources;
- d. American General Life Insurance Company;
- e. Highstar Capital Prism Fund, L.P.;
- f. Highstar Capital Fund II, L.P.; and
- g. Hydrostar Interco LLC.

2. List Corix's senior executive officers. For each listed officer, list all positions that he or she holds with Corix and all of Corix's subsidiaries and affiliates.

3. List and describe each benefit that Water Service's ratepayers will receive as a result of the proposed transaction. When possible, quantify the benefit.

4. At page 12 of the Application, Applicants states, "[t]he members of Corix Group believe in maintaining a strong local community presence and being a long-term committed partner in the communities where they operate. Corix Utilities plans to maintain its local presence in the communities in which UI and WSCK currently have operations."

a. Provide examples of the "strong local community presence" that members of the Corix Group presently maintain in the communities in which they operate.

b. List and describe the actions that Corix intends to take in Clinton and Middlesboro, Kentucky to maintain a strong community presence in those communities.

c. Explain the meaning of the phrase "maintain its local presence."

d. Describe the current level of community involvement that Hydro Star and Water Service maintain in Clinton and Middlesboro, Kentucky.

5. Describe how the proposed transaction will affect Utilities' capital structure. Provide with the response a schedule that compares Utilities' present capital to its projected post-transaction capital structure.

6. At pages 7 and 12 of the Application, the Joint Applicants state that Corix will not seek to recover any transaction costs or premiums relating to the proposed transaction from Water Service's ratepayers.

a. State the estimated premium that Corix Infrastructure is paying for Hydro Star's outstanding stock. Provide all workpapers, show all calculations and state all assumptions used to estimate this premium.

b. State the estimated transaction costs that Corix is incurring as a result of the proposed transaction.

c. Describe how the proposed purchase of Hydro Star's outstanding stock will be financed.

d. Explain how, if Corix does not use "push down" accounting to recover the acquisition premium and transaction costs from Water Service's ratepayers, Corix intends to recover its investment in Hydro Star.

7. a. State when Water Service currently anticipates applying for an adjustment of its rates for service.

b. Describe the effect of the proposed transfer of control on the date when Water Service plans to apply for an adjustment of its rates for service.

8. State whether the proposed transaction will affect Water Service's action for review of the Commission's Order of November 23, 2011 in Case No. 2010-00476.¹

9. On page 12 of the Application, Joint Applicants state that the management services that Utilities provides to Water Service will be "augmented by the additional professional expertise available through their association with the Corix Group." List

¹ Case No. 2010-00476, Application of Water Service Corporation of Kentucky for an Adjustment of Rates (Ky. PSC Nov. 23, 2011).

and describe the managerial services that Corix or Corix Group will provide that are not being provided to Water Service.

10. On pages 12 and 13 of the Application, Joint Applicants state, “[a]s part of the Corix Group, WSCK and UI will have access to a wide spectrum of technical and industry expertise in all facets of sustainable water, wastewater, and energy systems, including innovative technologies, operating tools, and regulatory resources required to develop sustainable multi-utility services.” List and describe each product and service that Corix Group can offer to Water Service and Utilities that are currently unavailable to them.

11. For each utility that a Corix Infrastructure subsidiary or affiliate operates or manages:

- a. Identify the utility;
- b. Describe the utility service provided; and,
- c. Identify the Corix Infrastructure subsidiary or affiliate that provides the management service; and
- d. Describe the extent of state or local regulation over its rates and services.

12. For each affiliate or subsidiary listed in response to Item 11(c), state the extent of Corix Infrastructure’s ownership interest.

13. For each Corix Infrastructure subsidiary or affiliate that provides measurement and metering services to a municipality, utility or cooperative:

- a. Identify the subsidiary or affiliate;
- b. Describe the nature of its business;

- c. Describe the extent of Corix Infrastructure's ownership interest;
- d. Describe the extent of government regulation over the services that it provides;
- e. State the location of its corporate office and its actual operations;
- f. State whether it has previously transacted business with Utilities or Water Service; and
- g. State whether it expects to transact business with Utilities or Water Service after the proposed transfer of control.

14. Page 4 of Exhibit 2 of the Application states, "Corix operates 38 utility products branches across North America, distributing a full line of pipes, valves, meters, pumps, irrigation equipment, service and repair products, and other components that are used to transport clean water and wastewater." For each Corix Infrastructure subsidiary or affiliate that provides utility products:

- a. Identify the subsidiary or affiliate;
- b. Describe the nature of its business;
- c. Describe the extent of Corix Infrastructure's ownership interest;
- d. Describe the extent of government regulation over the services that it provides;
- e. State the location of its corporate office and its actual operations;
- f. State whether it has previously transacted business with Utilities or Water Service; and
- g. State whether it expects to transact business with Utilities or Water Service after the proposed transfer of control.

15. Provide the following financial performance measures and ratios for Hydro Star, Corix Infrastructure, and Corix for the most recent reporting quarter and annual or fiscal year:

- a. P/E Ratio (price divided by earnings per share).
- b. Dividend Yield (dividend yield based on present cash dividend rate).
- c. Payout Ratio (primary or basic earnings per share excluding extraordinary items paid to common shareholders in the form of cash dividends).
- d. Quick Ratio (cash plus short-term investments plus accounts receivable, divided by total current liabilities).
- e. Current Ratio (total current assets divided by total current liabilities).
- f. Interest Coverage (earnings before interest and taxes divided by interest expense).
- g. Equity Ratio (total common equity divided by total capitalization).
- h. Return on Equity (income available to common shareholders divided by common equity).

16. a. State the current bond and debt ratings for Corix Infrastructure's debt instruments and all debt instruments issued separately by a Corix subsidiary or affiliate. Identify the rating agency or institution.

b. If any rating agency or institution has placed any of the debt instruments on a credit watch or given a similar review that may lead to a change in any

rating, identify the debt instrument and the rating agency or institution, and state the reasons for such placement.

17. State the current bond and/or debt ratings for Hydro Star's debt instruments and all debt instruments that any Hydro Star subsidiary or affiliate has issued separately. Identify the rating agency or institution.

18. Provide the dividend history of Corix Infrastructure (or any corporate predecessor) since 2005.

19. Provide the dividend history of each Corix Infrastructure subsidiary and affiliate since 2005.

20. Provide charts showing the stock price activity for Corix Infrastructure (and any corporate predecessor) and Corix (and any corporate predecessor) since 2005 on the applicable stock exchange. Explain the reason(s) for any significant movements in the stock price during the period.

21. Provide investor ratings of Corix Infrastructure (or its corporate predecessors) and each subsidiary or affiliate since 2005. Identify any of these ratings that are currently under review and state the circumstances of such review.

22. List each entity or individual that holds five percent or more of Corix Infrastructure's outstanding capital stock as of December 31, 2011, and state the percentage of capital stock held by that entity or individual.

23. a. List all regulatory and governmental approvals required for Corix's acquisition of Hydro Star's stock.

b. For each approval listed in response to Item 23(a), provide a copy of the application, state the date an application for such approval will be or has been submitted and the expected date of approval.

c. Provide a copy of the regulatory and governmental approvals when they are issued.

24. Describe how the Joint Applicants will ensure against:

a. The cross-subsidization of non-regulated activities by Water Service.

b. The diversion of management talent away from Utilities to Corix, and/or its affiliates.

c. Corix's adjustment of Utilities' or Water Service's capital structure in a manner that could adversely affect Water Service's cost of capital and financial integrity.

d. Corix's adjustment of Utilities' or Water Service's dividend policy in a manner that could adversely affect Water Service's financing requirements, financing capabilities, and financial integrity.

e. Corix's refusal to provide necessary capital to Utilities or Water Service that could severely impair Water Service's ability to provide utility services.

f. Water Service's guaranteeing of the debt of Corix or its affiliates that could unnecessarily place in jeopardy Water Service's financial position and resources.

g. A failed or failing unregulated affiliate adversely affecting Utilities' and/or Water Service's operating and financial condition.

h. Restrictions or limitations upon the Commission's access to the books and records of Corix, Utilities, and its other affiliates and subsidiaries.

i. Restrictions or limitations upon the Commission's ability to monitor significant transfers of utility assets, business ventures of Corix and its affiliates, and other major transactions.

j. Restrictions or limitations upon the Commission's ability to obtain periodic and special reports from Corix, Utilities, and its other affiliates and subsidiaries to assist the Commission with its monitoring activities.

25. Provide all reports related to the proposed acquisition that financial advisors submitted to Corix Infrastructure, Corix Infrastructure affiliates, or Hydro Star.

26. Provide all materials that Corix Infrastructure, Corix, Hydro Star, or Utilities provided to employees of Utilities or its affiliates about changes in employee benefits plans due to the proposed merger.

27. a. Provide a schedule showing the excess deferred income taxes for Utilities and Water Service as of December 31, 2011 and the date of this Order.

b. Describe all effects that the proposed transfer will have on Water Service's and Utilities' excess deferred income taxes.

28. a. Provide the total costs related to the proposed transaction that Corix Infrastructure, Corix Infrastructure's affiliates and Hydro Star have incurred as of the date of this Order.

b. Provide the total costs related to the proposed transaction that Corix Infrastructure, Corix Infrastructure's affiliates, and Hydro Star expect to bear.

29. a. State whether Corix's acquisition of Hydro Star will result in any change of control payments to any individual or employee of Utilities or Water Service.

b. If yes, list each employee entitled to a payment and the total amount of his or her payments.

30. Provide all letters, analyses, notes, memoranda, studies, and related documents that Corix Infrastructure or its affiliates prepared, or commissioned to be prepared, and that discuss the price to be paid for the Hydro Star stock.

31. a. Describe the internal standards and policies of Corix (including its subsidiaries and affiliates) regarding service reliability and quality of its water utility operations.

b. Provide all written standards or policies related to service quality and reliability of water utility operations.

32. a. Describe the internal standards and policies of Utilities and Water Service regarding service reliability and quality of its water utility operations.

b. Provide all written standards or policies related to service quality and reliability of water utility operations.

33. a. State whether Corix, Utilities, and Water Service are willing to establish minimum service quality standards to assure the same level of reliability and service quality currently provided to Water Service's customers. Explain.

b. If no, describe the assurances that Corix, Utilities, and Water Service will provide to ensure that Water Service's water operations will be adequately funded and maintained.

34. For each jurisdiction in which Corix and Utilities or their affiliates operate, describe the policy of that jurisdiction's utility regulatory commission regarding the recovery of plant acquisition adjustments. Refer in the response to any relevant statute, administrative regulation, or agency order that expressly addresses this issue.

35. Provide all press releases, Web site postings, and other forms of public information disseminated by Corix Infrastructure, its affiliates, or the Joint Applicants regarding the proposed transaction.

36. Provide all materials and documents regarding the stock purchase that Applicants have submitted to:

- a. Investment firms;
- b. Credit rating agencies;
- c. Shareholders; and,
- d. Employees of Utilities or Water Service.

37. Identify all utility mergers and acquisitions in which Corix has been involved since 2005. For each merger or acquisition, provide Corix's capital structure for the three years before, and every year since, the merger or acquisition.

38. Identify all utility acquisitions in which Corix Infrastructure or its affiliates has been involved since 2005.

39. Provide all studies or analyses that Corix Infrastructure or its affiliates, or the Joint Applicants, have performed or commissioned that identify any realizable synergies that will occur between 2012 and 2017 as a result of the proposed stock purchase.

40. For each regulated water utility that Corix Infrastructure and its affiliates own or operate, provide in table format an analysis of the number and type of consumer complaints during the period from 2005 to 2011 and how such complaints were resolved.

41. a. Provide all established operational excellence objectives or best practices that Corix employs.

b. Explain how these objectives or best practices were developed.

c. Provide a comparison of these objectives or best practices with those employed by Utilities and Water Service.

42. Provide for each regulated utility that Corix Infrastructure and its affiliates own or control the report of its most recent management audit and all updates or status reports regarding the audit's findings.

43. Provide all standards or codes of conduct that Corix, Corix Infrastructure and its affiliates use to govern their affiliate and non-affiliate transactions.

44. For each jurisdiction in which Corix has regulated operations, list and briefly explain each complaint filed against Corix or a Corix affiliate in which an established code or standard of conduct is alleged.

45. For each proposed conditions set forth in the Appendix to this Request, state Corix's and Corix Infrastructure's position. If Corix and Corix Infrastructure are unable to accept the proposed condition, state the reason for their position and identify any modifications to the proposed conditions that would render it acceptable.


Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

DATED: **JUN 14 2012**

cc: Parties of Record

Case No. 2012-00133

APPENDIX

APPENDIX TO A REQUEST FOR INFORMATION FROM THE PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00133 DATED JUN 14 2012

1. Water Service's books and records will be maintained and housed in Kentucky or shall otherwise be maintained in a manner to be easily accessible to the Commission for inspection at reasonable times.

2. Corix, Utilities, and Water Service will not assert in any judicial or administrative proceeding that the Commission lacks for rate-making purposes jurisdiction over Water Service's capital structure, financing, and cost of capital.

3. Water Service will not seek a higher rate of return on equity than would have been sought if the proposed transfer of control had not occurred.

4. The proposed transfer of control will not affect the accounting and rate-making treatments of Water Service's excess deferred income taxes.

5. No early termination costs, change in control payments, or retention bonuses paid to a Hydro Star or Utilities employee as a result of the proposed transaction will be allocated to Water Service or recovered from Water Service's ratepayers.

6. Neither Water Service nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with Corix's acquisition of Hydro Star.

7. Water Service will not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the acquisition of Hydro Star.

8. Any premium that Corix pays for Hydro Star stock, as well as all transaction-related costs, will not be “pushed down” to Water Service and will not be recovered from Water Service’s ratepayers.

9. Corix and Utilities will take an active and ongoing role in managing and operating Water Service in the interests of customers, employees, and the Commonwealth of Kentucky, and will take the lead in enhancing Water Service’s relationship with the Commission, with state and local governments, and with other community interests, and to advance these goals shall, among other things, arrange for meetings between Corix’s and Utilities’ chief executive and the Commission and/or its Staff, at least annually.

10. For at least two years from the date of Corix’s acquisition of Hydro Star’s stock, Corix or Utilities or Water Service will notify the Commission in writing within 10 days of any changes in Utilities’ or Water Service’s corporate officers and management personnel.

11. Corix will notify the Commission subsequent to its board approval and as soon as practicable following any public announcement of any acquisition of a regulated or non-regulated business representing five percent or more of Corix’s market capitalization.

12. Corix, Utilities, and Water Service will adequately fund and maintain Water Service’s treatment, transmission, and distribution systems; comply with all applicable Kentucky statutes and administrative regulations; and supply the service needs of Water Service’s customers.

13. At least 30 days prior to any planned reduction of five percent or more in Water Service's work force, Corix, Utilities or Water Service will notify the Commission, in writing, of the planned reduction and will include with such notice a written study of the reduction's expected effects on service and Water Service's plan for maintaining service quality at the reduced work force level.

14. Corix, Utilities, and Water Service will minimize, to the extent possible, any negative impacts on levels of customer service and customer satisfaction resulting from workforce reductions.

15. Utilities will hold 100 percent of the common stock of Water Service and that Utilities will not transfer any of that stock, without prior Commission approval, even if the transfer is pursuant to a corporate reorganization as defined in KRS 278.020(7)(b).

16. Water Service will maintain a substantial level of involvement in community activities, through annual charitable and other contributions, on a level comparable to or greater than the participation levels experienced prior to the date of the merger.

17. If in connection with the proposed transaction, any state or federal regulatory commission or agency imposes conditions on Corix, Hydro Star, or Utilities that would benefit ratepayers in any other jurisdiction, proportionate net benefits and conditions will be extended to Water Service ratepayers.

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